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SUBJECT: POLICY POINTS; WASHINGTON VISIT OF DOMINICAN
PRESIDENT LEONEL FERNANDEZ, MAY 11-12

Classified By: Ambassador Hans H. Hertell. Reason: 1.4 (b) and (d)

1. (C) Dominican President Leonel Fernandez travels May 11-12 to Washington for the first time since his August 2004 inauguration. The USG and regional focus of the event is the CAFTA free trade agreement now under consideration in the U.S. Congress. For Fernandez, however, the visit is much more: it is a validation of his status as the democratically elected leader of the Dominican Republic. Fernandez has told the Ambassador repeatedly that he could not afford to go to Washington without calling on President Bush; if he were not received by the U.S. President on his first visit, Dominican commentators and politicians would construe any Washington visit as a personal snub and a failure of his administration. Following is background and a suggested approach for several topics that could be discussed during the trip, depending on the final Fernandez schedule. They include CAFTA, corruption, support for the Coalition, and the need for a national security strategy.

ECONOMIC BACKGROUND

2. (C) Fernandez and his party have articulated a market-friendly, socially conscious approach to domestic politics. Fernandez is an eloquent advocate for international cooperation and multilateralism. In the nine months to date of his administration his economic team has successfully put the country back into a standby agreement with the International Monetary Fund and adhered to agreed targets. They openly favor the CAFTA free trade agreement and in December secured the repeal of a CAFTA-unfriendly protectionist tax. The CAFTA is under consideration in the Dominican Senate; powerful domestic business interests, especially from the sugar industry, are seeking significant fiscal concessions as a price for non-opposition to the agreement. At the same time, the Dominican letter of agreement with the IMF specifies that the government will put forward proposals for fundamental tax reform this year to offset significant revenue losses that will occur pursuant CAFTA and WTO commitments to ending many levies on imported goods. Dominican legislators would prefer to wait until after the mid-2006 congressional elections to consider fiscal reform.

ACTIVE ENGAGEMENT IN CAFTA RATIFICATION

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3. (C) President Fernandez is eloquent in public pronouncements about globalization and free trade, and he has endorsed CAFTA in general terms. He has not engaged legislators or business interests personally on the subject or sought to broker a practical agreement that would end the debate about ratification. His passivity is of great concern, for influential business interests assert that lawmakers must grant them extensive tax concession BEFORE ratifying CAFTA.

The Dominican Senate is controlled by the opposition PRD. Congressional elections for all seats in both houses are scheduled for May 2006.

CAFTA APPROACH:

- - The Dominican people and legislature need their President to engage actively in the CAFTA ratification process.

- - You have spoken eloquently about globalization and free trade. With your 57 percent mandate in the presidential election, you have the moral authority to pursue passage of CAFTA.

- - The obligations of CAFTA require a major tax reform, a fact your government acknowledged in negotiations with the IMF. You personally and your team need to engage now to articulate these reforms and pursue them.

CORRUPTION

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14. (C) Fernandez says he is deeply concerned by levels of corruption in the country. The Dominican public and press are discussing the corruption revealed over the last two years, including, most prominently, the "Baninter" bank fraud and related embezzlements at Bancredito and Banco Mercantil that collectively cost 20 percent of GDP in 2003; narcotics trafficking and payoffs; government procurement scandals affecting the previous administration and both of Fernandez's administrations. Fernandez has appointed men of integrity to key law enforcement positions. USAID is providing him help to mount an anti-corruption/ethics in government mechanism and campaign. On May 2, responding to the urgings of the U.S. ambassador, President Fernandez he belatedly and without comment relieved his intelligence chief and two other senior officers known to be corrupt. The government is preparing several pieces of legislation to assure greater transparency and to prevent opportunities for corruption.

CORRUPTION APPROACH:

- - We greatly admire your Attorney General Francisco Dominguez Brito and several other key law enforcement officials in your administration.
- - The USG will continue to support you in your stand against corruption.
- - CAFTA and new Dominican legislation will provide stronger safeguards.
- - The public must see your government act strongly and impartially against those suspected of fraud and corruption.

SUPPORT FOR IRAQ- - - - -

15. (C) Fernandez did not criticize his predecessor's dispatch of a 300-soldier battalion to Iraq and never commented publicly on Operation Iraqi Freedom. The Dominican Armed

Forces Minister, acting on his understanding that he has authorization from the President, is in the process of selecting a limited number of Dominican staff officers, perhaps 15-20, for duty with the U.S. Central Command and in the Iraq area of operations. The Dominican government has not formally notified the United States of this decision and it has not been publicized. Selection and testing is under way; first deployments could occur in June.

APPROACH ON IRAQ SUPPORT:

- - I understand that you have given your Armed Forces Minister authorization to select a number of staff officers to support the coalition efforts to protect and rebuild Iraq.
- - The Iraqi people and authorities will appreciate this support. So do we.
- - We appreciate the quality of Dominican military professionals; this will further qualify those officers to participate in multilateral operations with the UN or the Organization of American States.

NATIONAL SECURITY STRATEGY-

16. (C). President Fernandez has expressed great interest in drawing up a national security strategy. Senior military officers have not begun this work in earnest, devoting their attention instead to a "White Paper" on the military instead, and have not been receptive to Fernandez's military advisor. The U.S. Embassy's Military Advisory and Assistance Group can assist in drawing up a national strategy.

SECURITY STRATEGY APPROACH:

- - The President bears the responsibility for defining the National Security Strategy of a nation, giving guidelines to the government and armed forces.
- - I encourage you to take a direct interest in this work, to constitute a working group headed by your personal representatives with a mandate from you, and to insist on a concerted effort.
- - A clear vision of security threats, requirements, and resources is vital to assuming your responsibilities toward your own population and toward the community of nations.

HERTELL